

Detroit's demolition program under fire for lack of diversity

Just 16 percent of the federal hardest hit funds disbursed have gone toward Black-owned firms. Officials say they're aiming to recruit more.

Katrease Stafford, Detroit Free Press

Detroit's blight remediation effort has been fueled by more than \$148 million in federal dollars but a Free Press analysis shows that only 26% of the work has gone to minority-owned companies and among them, only one black-owned company has received a substantial slice of the nation's largest federally funded demolition program.

In a city such as Detroit, where the population is more than 79 percent black, critics and some officials argue there are dozens of minority business owners who can do the job but are being shut out of consideration. In total, just 16 percent of the federal Hardest Hit Fund money disbursed for the demolition program has gone to black-owned firms.

In contrast, some states, such as Tennessee, South Carolina and Indiana, have put measures in place to promote more diversity among HHF-funded work.

Detroit's demolition program is dominated by two large companies, Adamo and Homrich, which have received the bulk of the dollars thus far. The companies have earned \$40 million and \$32 million, respectively— or more than \$72 million combined.

According to a Free Press analysis of public demolition records:

- As of June 6, 10,361 demolitions totaling more than \$148 million have been completed by about 20 contractors.
- City officials say 26 percent — or roughly 2,800 demolitions — have been awarded to minority-owned companies. Of that figure, about 16 percent — or around 1,700 demolitions — have been completed by 8 black-owned companies, totaling more than \$24

million. One company, Rickman Enterprise Group, has been awarded most of that figure, receiving more than \$14.1 million.

- Since 2015, when \$10.4 million was awarded to black contractors, there's been a precipitous drop in the number of contracts awarded to black-owned firms, with \$5.7 million being awarded in 2016 and \$5.8 million in 2017.
- Of 10 contractors currently pre-qualified and allowed to participate in the Detroit Land Bank's demolition program, only two are minority-owned companies — DMC Consultants and Rickman Enterprise Group. DMC Consultants, an Asian-owned company, according to its website and state business license information, has done 1,163 demolitions totaling more than \$16.6 million. Rickman has performed 895 demolitions.
- Of the 527 demolitions performed by nine companies in 2018, only 24 were completed by two black-owned companies.

The Michigan Minority Contractors Association said there are dozens of minority-owned companies in the city, 28 of which are members of the organization.

"It's egregious," Jason Cole, former executive director of the Detroit chapter, said of the low rate of participation. "At the end of the day, they (the city) started with good intentions but they didn't necessarily complete it. Sixteen percent is concerning for folks because we have people — we have contractors in this demolition space."

Deb Taitt, the former spokesperson of the Detroit-based Inner City Black Wreckers Association and owner of Smash Wrecking, said the fight for access to contracts has been going on for years.

Taitt recalled when contractors within the organization threatened to encircle the Coleman A. Young Municipal Center years ago, in an effort to demand more city contracts. The Free Press wrote about the planned demonstration in September 1994.

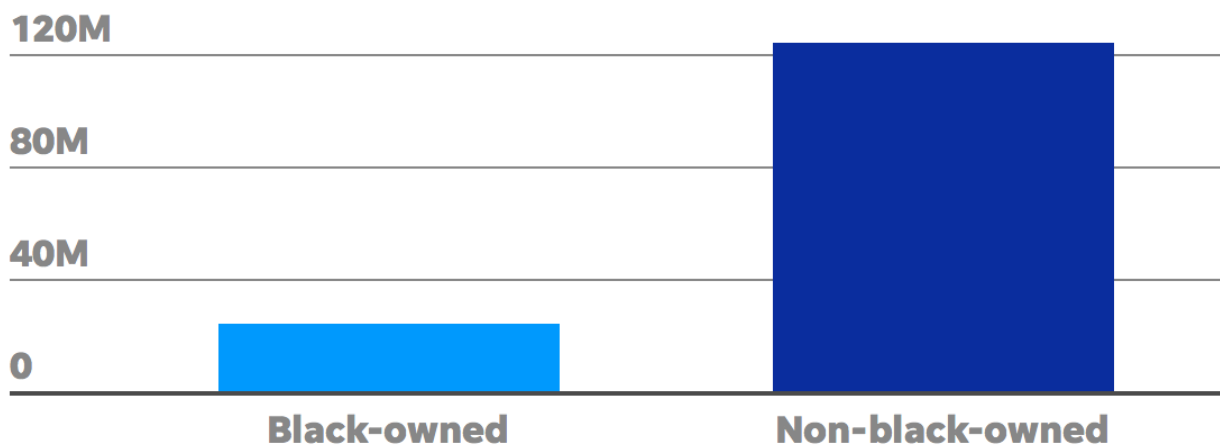
"Honestly I'm tired of this," Taitt said. "It's not just demolition, it's every aspect of the contracting process in Detroit. You go down the line and tell me how many black

contractors have contracts doing anything. Instead of setting all these barriers up, create a program for smaller contractors so they can participate and grow. It is a systemic issue. People see a few of us doing this work but they don't really understand it's not just doing the work, then we have to fight to keep the work."



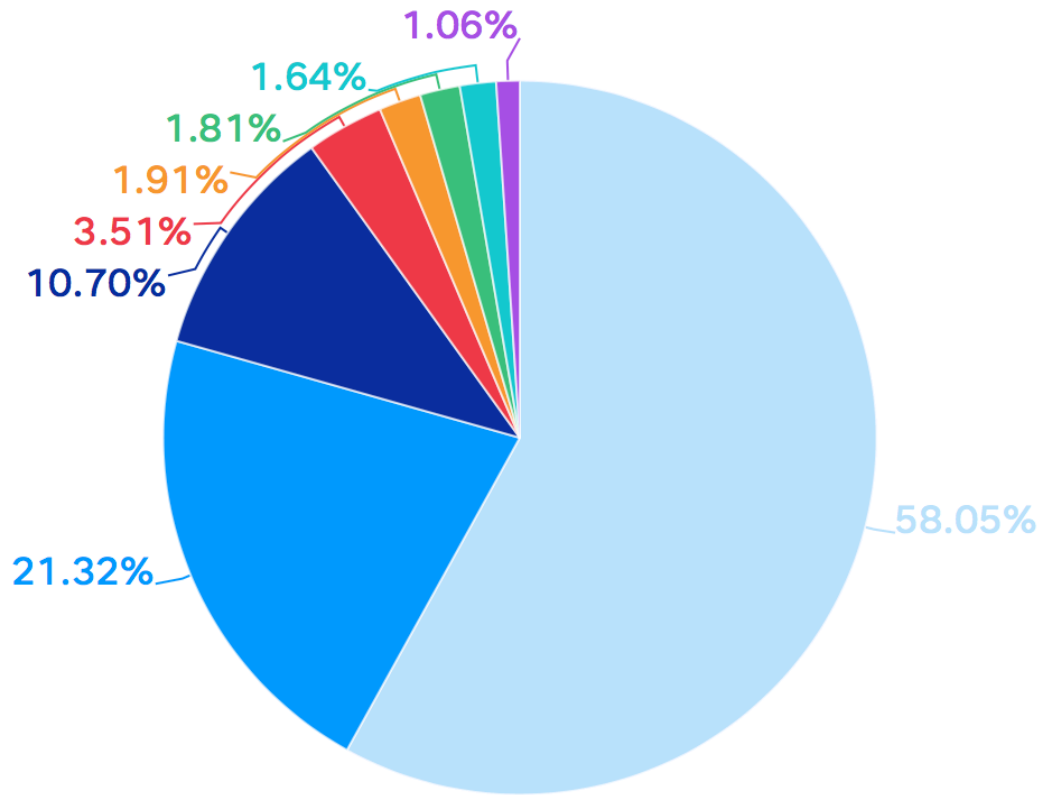
Total Hardest Hit Fund demolitions 2014-18

The numbers below reflect the amount of money awarded to black-owned and non-black-owned:



Black-owned vendors

Non-black-owned vendors



- Rickman Enterprise Group
- ABC Demolition
- Farrow Group
- Direct Construction Services, LLC
- 313 Construction, LLC
- Gayanga Co
- Jenkins Construction
- Leadhead Construction

SOURCE Detroit's open data portal

Black contractors, many of whom declined to comment on the record or be identified in this report, cite unfair policies and a lack of mechanisms in place to help smaller companies gain access to the lucrative contracts.

Overall, more than \$258 million has been earmarked for the city since the Land Bank began its targeted blight remediation effort in 2014, when Mayor Mike Duggan came into office. It is one of the largest pools of federal dollars disbursed to Detroit in recent memory. The city only has until 2020 to spend the rest of the Hardest Hit funds.

Of the 40,000 blighted buildings Duggan said he hoped to tear down, roughly more than 25,700 remain. Duggan announced an ambitious plan in March to demolish, board up or renovate every single abandoned home in the city by the end of next year.

In a series of interviews with the Free Press, city officials acknowledged a need to grow a more diverse group of contractors within the demolition program but said they're limited in what they can do, in part by state and federal policies.

"I wouldn't attempt to argue that there are not enough (minorities) but I would articulate to them that this program dictates the rules and regulations by which we can award contracts, period," Land Bank Demolition Director Tammy Daniels said. "We are in the very infant stages of trying to figure out what we need to do to recruit more contractors. Diversity in the program is a benefit to us."

Detroit City Council President Brenda Jones said she has been made aware of minority contractors' concerns and has raised several questions about them in meetings with Land Bank officials. The Land Bank is legally separate from the city, but it manages the city's demolition program.

"The Land Bank has continued to say that they are handling everything in a fair manner and contractors continue to say that they are not handling them in a fair manner," Jones said in an interview.

Diversity concerns are the latest woes to hit the city's demolition program.

It was suspended for two months in 2016 by the U.S. Department of the Treasury during a review that led to new procedures being put in place to evaluate bids and pay contractors.

SIGTARP, a federal watchdog agency, along with the FBI, has been reportedly conducting a criminal investigation into Detroit's aggressive demolition program related to costs and payment to contractors for some time. No one has been charged.

Critics say city's policies favor larger contractors

Contractors' complaints initially stemmed from a policy put into effect in June 2016 by the Detroit Building Authority and the Land Bank, which calculated how much work a contractor received based on the number of homes the company had demolished on average in the previous six weeks.

Contractors said it was hard for smaller or new companies to win large bids under such a standard and compete with established firms within the program. If a company was awarded no work for several weeks in that window, the company received a zero for those weeks, but the weeks were still counted in the average.

Daniels said the old policy also, regardless of a company's ability to do the work, limited new companies in the program to only being able to tear down 30 houses at a time.

"We received a number of complaints about the previous policy that for new people coming into the program, it unfairly tethered them and limited their capacity to do work," Daniels said.

According to documents obtained by the Free Press, the policy was revised again on Oct. 16, 2017, now using the company's best eight weeks.

The city thought by changing it to eight weeks and increasing the minimum number of houses that could be torn down by each contractor to 50, it would create more competition. Yet, the same issues about the program were raised.

"You could have been the largest demo contractor in the country but you could only knock 50 houses because you didn't have a history with us," Daniels said. "We're trying to move toward greater transparency in the program. We want to be able to look at a policy and it makes sense to us. ... I think some of our previous policies didn't afford that."

Daniels said a new policy again was put in place on April 2 of this year. The new policy now calculates how much work a contractor gets based upon 50 percent of a company's bonding limit. The limit essentially sets the amount of credit a surety company will provide to a contractor.

City officials said by switching to bonding and capping it at 50 percent, instead of using a company's full bonding amount, they hope it creates a more competitive environment and prevents larger companies from absorbing all of the work.

"We have very large players in our program," Daniels said. "We have \$105 million left and they (Adamo) have more than \$105 million in bonding capacity. If we left it at 100 percent, Adamo could low-bid every contract and win every contract. Fifty percent gets me a couple of things. It promotes diversity and inclusion, a competitive bidding environment and it allows me to spend down the dollars. ... This was done to create a competitive bidding environment where one contractor could not monopolize all of the work."

When asked whether he thought the previous policies were flawed, Detroit Building Authority Special Projects Director Brian Farkas said he thought that was an "unfair" characterization.

"I think we are looking at how we can get these houses down as fast as possible," Farkas said. "... Every decision we make is what's in the best interest of the residents of Detroit. That is our No. 1 priority."

The city also pointed to a recent rule change by the state that now prevents it from giving geographic preference to companies based in Detroit, which allowed the city to give more opportunities to minority companies, according to Land Bank Executive Director Saskia Thompson. She said that has become "10 times harder" to do so now.

"We are literally in a quandary," Daniels said. "The vast majority, if not all, of the minority contractors were located in the city. They have now taken it away and we have to figure out some other creative ways. That's a herculean task we're undertaking."

The Michigan Homeowner Assistance Nonprofit Housing Corporation, which administers Hardest Hit funds from the U.S. Department of the Treasury, said in a statement that it occasionally modifies and updates its manual based on recommendations from the treasury department or SIGTARP, the federal watchdog agency. MHA said federal regulations prohibit the use of "statutorily or administratively imposed state, local or tribal geographic preferences."

"The (Detroit Land Bank) has made no comments to MHA about program changes impacting the program's diversity," MHA said, noting that a policy change only affects new contracts, not existing ones.

Thompson said the organization is required to enforce the regulations in the MHA's blight manual.

"We have to follow it and we will line our policies up with it to follow it," Thompson said.

The issue, however, remains a sore subject with contractors who feel they are not participating in the city's comeback.

Just two years ago, Duggan, along with the Rev. Jesse Jackson's Rainbow Push coalition, touted a contractor opportunity fair to help recruit Detroit minority companies to the program, as well as other contracting opportunities.

"Thanks to an increase in federal funding and the work being done by the Detroit Land Bank and others, we are about to ramp up the work that's already taking place in our neighborhoods," Duggan said at the time. "Detroit-based, minority-owned companies will play a key role in Detroit's resurgence and our ability to meet this growing demand."

Of the more than 300 who attended, only one company, Gayanga Co., secured a city wrecking license, needed to do demolition work in the city, according to Farkas.

A request to interview Duggan was declined but spokesperson John Roach said: "...We're committed to doing whatever we can within the law and state regulations to encourage minority participation in the city's demolition program."

Roach noted that Gayanga and other companies have been able to benefit through other demolition opportunities, including emergency demolitions in the city, which aren't funded by Hardest Hit Fund dollars. In total, 3,838 demolitions have been completed using city funding.

The two-year-old company, which is black-owned, was awarded more than \$441,000 of HHF work in the program but is no longer allowed to participate because of a recent clarification from the Michigan State Housing Development Authority, which established MHA, that requires companies to have five years of experience.

In a statement, MHA said it implemented the five-year rule "to ensure we have experienced and financially stable contractors (organizations) working the program and need this due to volume of work that they could be managing."

Roach said "at the time the contractor fair was held, the MSHDA rules were different and at that point he (Gayanga) was in a perfect position because the rules allowed him to be able to participate in HHF. But then the rules changed and it kind of slammed the door in that respect."

Farkas said the company "has actually been one of our rising stars in terms of performance."

"He cannot participate in HHF(Hardest Hit Funds) and it's not our decision," Farkas said. Mary Townley, vice president of the MHA, initially told the Free Press that companies were allowed to use the experience of individuals in a company to qualify for the program but later said the company itself has to have five years of experience and that the rule has always been in place.

Gayanga said in a statement that one of its main goals is to ensure that African-Americans and other minorities across the city have "full access and participation in large-scale infrastructure projects occurring in the very urban American communities that minorities comprise the population majority."

"Though participating in the nation's largest demolition program has been extremely challenging and there have been several obstacles we've had to overcome, we remain fully committed to continue working with the Detroit Land Bank Authority, the Detroit Building Authority, and MSHDA to ensure that the large influx of Hardest Hit Fund dollars allocated for the City of Detroit directly benefit Detroiters — through not only blight removal, but whenever possible, job creation," the company said.

Feds says clearer standards need to be in place

Recent quarterly reports issued by SIGTARP said there appears to be no uniform standard in place that's clear on how state agencies should administer Hardest Hit Funds. State housing agencies are tasked with designing and administering their own HHF-funded programs through contracts with the U.S. Department of Treasury.

In an audit released in March, SIGTARP found that most of the \$9.6-billion Hardest Hit Fund money has no federal requirements for competition, even though millions of dollars in contracts remain to be awarded. SIGTARP urged the Treasury to establish uniform federal procurement standards to ensure competitive and fair bidding.

"Further analysis found that Treasury has no competition requirements for contracts awarded with HHF dollars, except for a recently added one-sentence guidance applicable solely to the blight subprogram," SIGTARP Special Inspector General Christy Goldsmith Romero said in a statement.

SIGTARP has said it believes the Treasury should implement clearer policies similar to the Department of Housing and Urban Development's Neighborhood Stabilization Program,

which has a requirement for full and open competition and six pages of other competition requirements in its blight elimination program.

“HUD also requires that recipients take all necessary affirmative steps to assure that minority and women owned businesses are used when possible,” the report said. “In stark contrast, Treasury has no competitive solicitation requirements in TARP’s Hardest Hit Fund Blight Elimination Program. Treasury’s agreements with state agencies are silent on the need for any competition.”

SIGTARP found that most agencies are inconsistent or have no policies that are clear or defined around making an effort to include minority or femalewomen-owned companies. In Michigan, MHA encourages local blight partners to encourage diversity but doesn’t outline how it expects local blight partners to do so.

MHA said in a statement that, “At the end of the day, each contractor must still qualify under that standard set of regulations, regardless of race or gender, etc. ... MHA will work with any blight partner that wants to promote and expand its eligible local contractor base. However, all contractors desiring to work in the program must understand they are subject to the same written criteria as all other contractors.”

Yet, some housing agencies have independently required municipalities to solicit minority and women-owned contractors and businesses or have updated their program guidelines to do so.

According to the Tennessee Housing Development Agency’s blight program manual, local blight partners are required to present the state with documentation that shows "efforts to solicit minority and female vendor participation." The manual also requires that each municipality maintain an independent list of those contractors or utilize a statewide directory.

South Carolina, which has used all of its allotted HHF funding, required local cities to approve procurement policies that “state a preference” for the use of minority and women-owned business, according to SIGTARP and the state’s website.

Indianapolis' Hardest Hit Fund program is run by a nonprofit, Renew Indianapolis, which functions as the city's land bank.

Guidelines place a high priority on minority, women and veteran-owned company participation, Executive Director Bruce Baird said. State and city policies mandate that the entities are given "maximum feasible opportunity to participate in the performance of contracts under federal award programs," according to the program requirements.

Renew also requests contractors submit participation plans that include diversity strategies. That includes listing different subcontractors who might work on the project and outlining how they plan to meet participation goals laid out by the city, including a 15 percent goal to hire minority-owned subcontractors.

Minority-owned companies are also required to submit plans and meet the goals, as well.

Cole, who helped coordinate Detroit's minority fair in 2016, said the city was supposed to have additional fairs or sessions every 90 days, but that hasn't happened.

"They did have one follow-up session, but after that, it kind of lay dormant," Cole said.

"They do have ongoing demolition meetings but not everybody knows about it. I think that's very necessary on a quarterly basis."

Robust efforts elsewhere to recruit minority firms

Frustrations over a lack of diversity within the city's demolition program are part of a broader concern regarding minority representation in city contracts. Just two years ago, the City of Detroit levied about \$500,000 in fines against several contractors working on the Little Caesars Arena for failing to hire enough Detroiters.

And while cities across the country, including Detroit, are barred from awarding government contracts based solely on race, some municipalities, such as the District of Columbia have created robust set-aside programs and other initiatives that specifically fuel small, local business development.

The programs aren't able to capture Hardest Hit-funded demolitions but have created new avenues of work for contractors.

Detroit has already established a handful of programs geared toward fueling small business growth but some officials are pushing for legislation that would impact the city's actual contract procurement process, including demolition work outside of the scope of Hardest Hit funding.

"I think these programs are critically important," D.C. Deputy Mayor Courtney Snowden said in an interview with the Free Press. "When we think about construction trades for example, some folks will say the small guys, they don't have the capacity to do the work or they can't handle a project of that size. That's categorically untrue."

At one time, former D.C. Mayor Marion Berry, Snowden said, required that 35 percent of all government business be conducted with black, minority or women-owned companies. But that effort unraveled after a 1989 U.S. Supreme Court ruling that prevented cities from giving preferential treatment to a minority group.

After the ruling, the district established the council-approved Certified Business Enterprise program geared toward small businesses, with the thought minority and women-owned companies would benefit, also.

It requires at least 35 percent of the district's procurement, contracting budget go toward small business enterprises. It also requires a company's principal office to be physically in the district and that more than 50 percent of employees or owners are district residents.

Snowden said since being elected, D.C. Mayor Muriel Bowser has set ambitious spending goals within the past four years to help certified business enterprises gain access to contracts.

The district set a goal in fiscal year 2016 to spend \$317 million of its procurement budget with small businesses and companies enrolled in the CBE program. In both fiscal years 2016 and 2017, the district surpassed its goals, by spending more than \$690 million and more than \$743 million, respectively. The district has set a higher benchmark for fiscal year 2018 — of at least \$656 million.

A majority of the district's CBEs, nearly 50 percent, Snowden said are in the construction trades, and do a large amount of demolition work.

"We have a pretty robust small business program," Snowden said. "It's our expectation that we will spend over \$1 billion with small businesses over the next 5 to 10 years. I will say it's not perfect but it is a pretty good start. The local law also requires we spend 50% of our expendable budget with small business enterprises."

In another boost to small businesses, D.C. also has a "quick pay law," Snowden said, that requires contractors get paid in a timely manner.

"The other issue that comes up for small businesses is they don't have a lot of cash to float," Snowden said. "So if the government takes too long to pay them, they'll put somebody out of business."

The Free Press reported in March that more than \$8.7 million was owed in outstanding invoices to several contractors. In some instances, the invoices were outstanding longer than a year. The Land Bank noted in a recent interview that since the Free Press story, it has paid the bulk of the outstanding invoices and has improved its internal processes.

Cole, the former executive director of Detroit's chapter of the Michigan Minority Contractors Association, said several minority-owned companies have cited slow payments as another impediment for small businesses.

“If you're in the contracting business, you need your money every 45 to 60 days and they're taking 180 days (in some cases) to pay you,” Cole said. “It became very problematic.”

City Council, others want changes

Jones said she's working on an ordinance that would require at least 30 percent of city contract dollars across all city departments during the procurement process to go toward Detroit-based businesses to increase minority participation.

"We've seen a lot of contracts come to us for Detroit-based businesses but I think it's important now for us to deal with the dollar amount, as opposed to the percentage of just the contracts that go out," Jones said.

Councilman Roy McCalister said he's also raised concerns about the lack of minorities getting contracts.

"This is why everyone is saying we have two Detroits — not only is it the fact of downtown/midtown but it's also about the little guy and the big guy," McCalister said. Voices within the community have also emerged, demanding an increase in diversity across all city contracts.

Detroiters Damion Ellis, who served as the budget manager during the Detroit Public Schools' \$500 million school construction and modernization program, and Jelani Karamoko, a former managing attorney at the Detroit Land Bank, have formed a political action committee, Black Bottom, aimed at creating a unified voice for minorities seeking access to contracts.

Ellis and Karamoko, who returned to the city after working elsewhere, said if the city council doesn't approve an inclusion ordinance for city contracts, they may work toward creating a ballot measure.

Ellis noted that the DPS program, which led to eight new and 10 renovated schools, had an inclusion requirement. The program began in 2009 as part of a voter-approved federal bond package and ended in 2014.

"I think if they modeled it exactly like DPS, just in terms of inclusion, there's no way you can't hire Detroiters," Ellis said.

Former DPS Chief Operating Officer Mark Schrupp said the DPS policy required Detroit residency and the hiring of Detroit-based businesses, including mandating that bidders propose specific commitments that were later incorporated into their contracts. If the companies failed to meet their goals, they faced a 3 percent penalty.

"In most, it was at least a 40-percent Detroit residency requirement," Schrupp said. "In terms of the contracting side, we looked at diversity and inclusion among the contractor teams, so when contractors made their proposal, they were they including smaller Detroit-based businesses."

Schrupp said the district considered the program a success.

"We know that when we create more diversity, that our graduates have a better shot of getting employed," Schrupp said.

White Construction, a black-owned company, in collaboration with Turner Construction, built the new Mumford High School in 2012. According to the companies' agreement with the district, it committed to hiring 50 percent of Detroit-headquartered businesses at a design and subcontractor level, as well as 50 percent of residents to work on the project.

The companies hit or exceeded their goals of hiring local businesses and contractors but fell slightly short of their goal to employ Detroiters at the construction sites, with 46 percent.

Karamoko, who worked at the Land Bank for one year before transitioning to serving as the executive director of the Wayne County Land Bank Authority and eventually his own private law practice, said the Land Bank was presented as an opportunity for Detroiters, to

not only acquire property across the city, but also have a role in bringing back their neighborhoods on the contracting side.

"It is concerning that while a lot of the resources are being directed through the Land Bank, when you look to measure how much local Detroiters are participating, it's still a fraction of the total dollars," Karamoko said.

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